

Message Text

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41

ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 ERDA-07 AID-05 CEA-01 CIAE-00

CIEP-02 COME-00 DODE-00 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03 USIA-15

SAM-01 OES-05 SP-02 SS-15 STR-04 TRSE-00 FRB-01 PA-02

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FM AMEMBASSY CARACAS

TO SECSTATE WASHDC 8918

UNCLAS CARACAS 5598

E.O. 11652: N/A

TAGS: ENRG, EINV, VE

SUBJ: GOV OFFERS REVISED ARTICLE FIVE TO DRAFT REVERSION LAW

REF: CARACAS 5078

1. FOLLOWING A WEEK OF MEETINGS WITHIN THE AD PARTY, AND BETWEEN AD AND THE OPPOSITION PARTIES, IN AN EFFORT TO REACH A CONSENSUS ON THE CONTROVERSIAL PROVISIONS OF THE DRAFT OIL REVERSION BILL BEFORE SUBMITTING IT TO THE CHAMBER OF DEPUTIES FOR DEBATE, THE GOV OFFERED A REVISED VERSION OF ARTICLE FIVE GOVERNING THE CONDITIONS UNDER WHICH THE STATE MAY ENTER INTO AGREEMENTS WITH PRIVATE COMPANIES AFTER NATIONALIZATION.

AN APPARENTLY AUTHENTIC TEXT OF THE ARTICLE WAS PUBLISHED IN EL NACIONAL ON MAY 29, AT THE SAME TIME, THE OPPOSITION ANNOUNCED THEIR REJECTION OF THE NEW VERSION.

2. THE REVISION IS CONSIDERABLY MORE DETAILED THAN THE ORIGINAL ARTICLE FIVE. IT SEPARATES OIL ACTIVITIES BETWEEN THOSE THAT WILL BE CONDUCTED OUTSIDE THE NATIONAL TERRITORY AND THOSE WITHIN THE COUNTRY. IN THE FIRST CATEGORY, THE STATE,
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OR ENTITIES OWNED BY THE STATE, WILL BE PERMITTED TO FORM ASSOCIATION AGREEMENTS WITH FOREIGN GOVERNMENTS OR PRIVATE

COMPANIES TO CARRY OUT THE FOLLOWING:

1) INTERNATIONAL TRANSPORTATION OF HYDROCARBONS AND/OR DERIVATIVE PRODUCTS FROM VENEZUELAN PORTS. ALSO TRANSPORTATION OF THE SAME ITEMS WHICH THE STATE MAY ACQUIRE ABROAD FOR ITS CONVENIENCE;

2) ESTABLISHMENT OR PURCHASE, EITHER TOTAL OR PARTIAL, OF PRODUCTION OR REFINING COMPLEXES LOCATED "IN THE TERRITORY OF OTHER NATIONS", WITH PREFERENCE GIVEN TO ASSOCIATION AGREEMENTS FOR THE PROCESSING OF HEAVY OIL OR LARGE VOLUMES OF VENEZUELAN CRUDE, OR WHERE NEW TECHNOLOGY IS DEMONSTRATED FOR REFINING OF HYDROCARBONS WHICH HAVE A GRAVITY OF LESS THAN 21 API;

3) EXTRACTION OF REFINING OF HYDROCARBONS ABROAD UNDER AGREEMENTS WITH THE ANDEAN PACT, THE LATIN AMERICAN FREE TRADE ASSOCIATION, OR OPEC.

3. THE SECOND CATEGORY OF ACTIVITIES TO BE CARRIED OUT WITHIN THE COUNTRY SPECIFIES ASSOCIATION AGREEMENTS TO PROVIDE TECHNOLOGY NECESSARY TO COMPLETE THE FOLLOWING OBJECTIVES:

1) COMMERCIAL UTILIZATION OF NON-CONVENTIONAL HYDROCARBONS WITH THE IDEA OF GRADUALLY MODIFYING THE PATTERN OF PETROLEUM PRODUCTIONS TO FURTHER CONSERVE CONVENTIONAL CRUDE AS A FUTURE RESERVE;

2) REFINING OF HEAVY CRUDES. FOR EXISTING REFINERIES IN VENEZUELA, A MINORITY PARTICIPATION WILL BE OFFERED IN EXCHANGE FOR A SIMILAR PARTICIPATION BY THE GOV IN REFINERIES OWNED BY THE PRIVATE COMPANIES IN THE CARIBBEAN AREA.

4. BEGINNING WITH PRESENT OIL PRODUCTION LEVELS, ANY INCREMENT OF NON-CONVENTIONAL CRUDE PRODUCTION, SHOULD BE ACCOMPANIED BY AN EQUAL REDUCTION OF CONVENTIONAL CRUDE PRODUCTION. IN ANY CASE, PRODUCTION OF NATIONAL
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CRUDE OIL OVER THE NEXT 15 YEARS WILL BE FIXED ANNUALLY BY RESOLUTION OF THE NATIONAL EXECUTIVE AFTER PREVIOUS CONSULTATION AND AUTHORIZATION BY THE PERMANENT COMMISSIONS OF MINES AND HYDROCARBONS OF THE NATIONAL CONGRESS ACTING IN JOINT SESSION.

5. ASSOCIATION AGREEMENTS WILL HAVE A LIFE SPAN NOT EXCEEDING 15 YEARS, AND PARTICIPATION BY FOREIGN ENTITIES WILL BE ON A MINORITY SHARE BASIS. THE AGREEMENTS WILL BE SUBJECT TO PRIOR AUTHORIZATION OF A JOINT SESSION OF BOTH

CHAMBERS OF THE CONGRESS WITH ALL THE TERMS FIXED AND
SPECIFIED.

6. EMBASSY COMMENT WILL FOLLOW BY SEPARATE CABLE.
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